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# Supreme Court of the United States

October Term, 1945

No. 119 28

ALPINE MacGREGOR, Petitioner,

v.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, Respondent.

On Writ of Certiorari to the Supreme Court of the Commonwealth of Pennsylvania.

## MEMORANDUM FILED BY RESPONDENT RE OBLIGATION OF A LICENSEE TO PAY ROYALTY ACCRUING UNDER PATENT LICENSE CONTRACT PRIOR TO ADJUDICATION OF INVALIDITY.

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## Cases Cited.


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## MEMORANDUM FILED BY RESPONDENT RE OBLIGATION OF A LICENSEE TO PAY ROYALTY ACCRUING UNDER LICENSE CONTRACT PRIOR TO ADJUDICATION OF INVALIDITY OF PATENT.

During the argument of this case counsel for respondent stated that this and other Courts have held that even when a patent is adjudicated invalid, a licensee is not thereby relieved from his obligation to pay royalty accrued prior to the date of such adjudication. The Court asked for a memorandum of cases on this point. By a letter to the Chief Justice, counsel for respondent has explained unavoidable delay in filing the memorandum.

The Supreme Court case counsel had in mind in his argument is *Kinsman v. Parkhurst*, 59 U. S. 385, cited by this Court in the *Sola* case. Counsel for respondent had not briefed this point because he had not anticipated that there would be any question of the general doctrine of estoppel of a licensee under a patent to attach validity so long as he operates under the license, or of licensee's liability for payment of royalties accrued prior to eviction by judicial decision holding a patent invalid.

This Court's decision in *Kinsman v. Parkhurst, supra*, has been cited in later opinions in this Court, and by decisions of the lower courts, on the points stated in the preceding paragraph.

In *Kinsman v. Parkhurst, supra*, Kinsman took a part interest in a patent from Parkhurst and agreed to stop manufacturing thereunder after he had reimbursed himself. Parkhurst agreed to continue the manufacture and to account to Kinsman for one-third of the profits. Kinsman reimbursed himself but did not discontinue. Suit was brought by Parkhurst for an accounting. The Court found for plaintiff, saying:

"The principal objection made by the appellants to the decree of the court below is, that Parkhurst was not the original and first inventor of the thing patented. We are not satisfied that this is made out. But we have not found it necessary to come to a decided opinion upon this point, because we are all of opinion that, under the agreement of the 9th of February, 1846, *the invalidity of the patent would not afford a bar to the complainant's right to an account.* Having actually received profits from sales of the patented machine, which profits the defendants do not show have been or are in any way liable to be affected by the invalidity of the patent, its validity is immaterial. *Moreover, we think the defendants are estopped from alleging that invalidity. They have made and sold these machines under the complainant's title, and for his account; and they can no more be allowed to deny that title and retain the profits to their own use, then an agent, who has collected a debt for his principal, can insist on keeping the money, upon an allegation that the debt was not justly due.*"*

In *Headley Good Roads Co. v. Barber Asphalt Paving Co.*, 292 F. 119, the Third Circuit Court of Appeals held that so long as a licensee continues to operate under a license it must pay stipulated royalties which became due before reissue of the licensed patent, whether the patent was valid or invalid prior to reissue. In reaching this decision, *the Court applied the Pennsylvania law which is applicable to the MacGregor contract now before this Court.* Also, it cited *Kinsman v. Parkhurst.* The following language of the Court covers the point now under discussion:

"[1] It must be kept in mind, however, that *this suit is based on the license agreement and not on the*

* Emphasis in all quotations added herein

*validity of the patent.* The defendant does not contend that in the price it charged and received for the emulsion, the stipulated royalties, now in issue, were not computed and collected from the railroads. No contention is made that defendant did not receive during the period in question all the advantage from the license agreement that it would have received, had there never been a reissue. *So long as the defendant enjoyed the benefit of the license agreement, manufactured and sold under the presumably valid patent, it must pay the stipulated royalties in question, all of which became due before the application for a reissue was filed, whether the patent was valid or invalid. Robinson on Patents,* vol. 3, 697; *Angier v. Eaton, Cole & Burnham Co.,* 98 Pa. 594, 600; *Patterson's Appeal,* 99 Pa. 521; *Covell v. Bostwick* (C. C.) 39 Fed. 421; *Homes, Booth & Haydens v. M'Gill,* 108 Fed. 238, 47 C. C. A. 681; *Kinsman v. Parkhurst,* 59 U. S. (18 How.) 289, 293, 15 L. Ed. 385."

In *National Clay Products Co. v. Heath Unit Tile Co.,* 40 F. (2) 617, (C. C. A. 8), defendant maintained that it had a subsisting license, and at the same time attempted to plead that the patent was invalid. The attack on validity was stricken out of the pleadings upon motion, and this action was approved on appeal, the Court citing *Kinsman v. Parkhurst.*

The language of the Court on this point at page 618 is as follows:

"The defense and counterclaims of defendant are based upon the insistence that the license is subsisting in it. Such being its position, and it being in the attitude of a licensee, it is estopped to deny the validity of the patents covered thereby. *United States v. Harvey Steel Co.,* 196 U. S. 310, 25 S. Ct. 240, 49 L. Ed. 492;

***Kinsman v. Parkhurst,*** 59 U. S. 289, 293, 15 L. Ed. 385; ***H. C. White Co. v. Morton E. Converse & Son Co.,*** 29 F. (2d) 311, 313 (C. C. A. 2); *Victory, etc., Co. v. O. & J. Mach. Co.,* 280 F. 753, 759 (C. C. A. 1); *Kohn v. Eimer,* 265 F. 900, 904 (C. C. A. 2); *Miami Cycle Co. v. Robinson,* 245 F. 556 565 (C. C. A. 6); *Chicago & A. Ry. Co. v. Pressed Steel C. Co.,* 243 F. 883, 887 (C. C. A. 7); *Tate v. B. & O. R. R. Co.,* 229 F. 141, 142 (C. C. A. 4); *Indiana Mfg. Co. v. J. I. Case Mfg. Co.,* 154 F. 365, 370 (C. C. A. 7); *Holmes, B. & H. v. McGill,* 108 F. 238, 244 (C. C. A. 2)."

In *International Burr Corporation v. Wood Grinding Service,* 34 F. (2) 905, the Second Circuit Court of Appeals held, as we understand it, that while a licensee may defend on the ground of invalidity of the patent after a license is revoked or otherwise terminated, it is liable for royalties accrued prior to termination of the license. In reaching this conclusion, the Court cites *Kinsman v. Parkhurst.* The language of the Court on the point under discussion is as follows: (page 909)

"[4] There remains the question whether that portion of the decree may stand which requires *an accounting for damages due to the defendant's acts while its license remained unrevoked.* By stipulation defendant admitted the sale, without payment of royalty, to a nonlicensee of the process patent, of flat-bottom burrs, 'said burrs being manufactured under and in accordance with the Hall patent, 1, 219, 299.' We have to decide whether a licensee may set up the invalidity of his licensor's patent when sued for acts beyond the scope of his license, but performed during the license term. The doctrine of estoppel between licensee and patentee has not escaped criticism (Keener, Quasi Con-

tracts, 37-39; Woodward, Quasi Contracts, Sec. 62), *but is too firmly established in the law to be questioned when the licensee is sued for acts within the scope of his license. Kinsman v. Parkhurst,* 18 How. 289, 15 L. Ed. 385; *United States v. Harvey Steel Co.,* 196 U. S. 310, 25 S. Ct. 240, 49 L. Ed. 492."

In *Drackett Chemical Co. v. Chamberlain Co.,* (C. C. A. 6), 63 F. (2) 853, Chamberlain granted Drackett an exclusive license under a patent. The two companies joined in an infringement suit against a thirty party. The trial court held non-infringement. Drackett then notified Chamberlain that it would continue to send credit memoranda covering royalties due under the license, but that such royalties would be paid only if the patent was held valid. Later another court held the patent invalid. In a suit for accrued royalties the court held that the Drackett Company was estopped to deny validity and it ordered the Drackett Company to pay royalties *up to the expiration date of the patent.* In reversing and remanding that decision, the Court of Appeals held that there was an eviction of the license rights *by the decree of invalidity* and that royalty was not payable *after* the adjudication, saying:

"*Prior to such eviction, the mere invalidity of the patent is properly held not to be a sufficient defense,* because the licensee may still continue to enjoy all the benefits of a valid patent. It may be respected, and the licensee would then have just what he bargained for. *McKay v. Smith, supra. It is only when, by judicial decree or otherwise, it is published to the world that the monopoly is destroyed, that the licensee can claim a corresponding release from his obligation to pay royalties.* • • •

"Our conclusion is that, under the authorities above cited, there was no such mistake of fact (the validity

of the patents) as would warrant a recovery of royalties already paid; * * * that the appellant is not estopped to set up such eviction, and, in view of the notice theretofore given, *the obligation to pay royalties should cease as of the date of such decision; but that all royalties accruing prior to that date must be paid.*"

In *Warner Bros. Co. v. American Lady Corset Co.*, defendant took a license to manufacture and sell under a patent. This license was later cancelled by the plaintiff due to defendant's refusal to pay royalties. The plaintiff then sued for royalties up to the date of cancellation. On the point under discussion, the Court held—

"[2] Defendant urges that in the event that I find the Field patent invalid, plaintiff should not recover the royalties unpaid on the sale of defendant's leno garments to the date of the cancellation of defendant's license. *I cannot hold with defendant in this contention. The law is clear. So long as the defendant enjoyed the benefit of the license agreement, manufactured and sold under the presumably valid patent, it must pay for the stipulated royalties until 'evicted'*, which in this case would be up until the license was cancelled by the plaintiff. *Drackett Chemical Co. v. Chamberlain Co.*, 6 Cir., 63 F. 2d 853; *Headley Good Roads Co. v. Barber Asphalt Paving Co.*, 3 Cir., 292 F. 119."

In *Patterson Ballagh Corporation v. Byron Jackson Co.*, 145 Fed. (2) 786, the Ninth Circuit Court of Appeals said:

"[6] Where there is a simple licensing agreement under a patent, and an ensuing judicial declaration of the patent's invalidity, or even a serious narrowing of the claims, it has been held that the licensee is released from *further* obligation to pay royalties. *Drack-*

*ett Chemical Co. v. Chamberlain Co.*, 6 Cir., 63 F. 2d 853; *Armstrong Co. v. Shell Co.* of California, 98 Cal. App. 769, 277 P. 887. In such a case, the licensee pays simply for the continuing value of a license in enabling him to manufacture or sell goods on favorable terms; there being no other complications, it is a simple matter to release him from his obligation *when the favorable terms bargained for cease to exist.*"

The proposition that royalties accrued under a license contract up to adjudication of invalidity of the patent, must be paid, seems to be generally accepted. We know of no case to the contrary. A recent text—"Patent Assignments and Licenses", by Ellis, Second Edition (1943), heads Sec. 567, Page 607 as follows:

"Limitation of Patent by Court Decision Does Not Require Licensor to Refund or Forego Collection of Royalties Paid or Accrued Prior to Such Decision on Articles Outside the Patent As So Limited."

**Respectfully submitted,**

Jo. Baily Brown,
*Attorney for Respondent.*

February 11, 1946.